# Warehouse Tax Incentive Program Evaluation

House Finance Committee
Washington State House of Representatives

Senate Ways and Means Committee
Washington State Senate

Report Compiled by Office of Program Research Staff

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OFFICE OF PROGRAM RESEARCH

**State of Washington House of Representatives**

# Warehouse Tax Incentive Study


Executive Summary

This report presents an evaluation of the economic impacts of the Warehouse Tax Incentive program, as provided under Chapter 450, Laws of 1997 (E2SSB 5074). The report includes an estimation of the effects of the program on the creation or retention of family-wage jobs and diversification of the state's economy, as well as a finding on whether the program is achieving its goals. Analyzing data collected over the first four years of the program, the following conclusions are obtained:

- In general, the program may provide only limited improvement with respect to employment:
  - Increases in employment have tended to occur at locations and firms where new warehouse space was constructed;
  - There has been no positive trend in increases at locations and firms that used the incentive only for equipment purchases; and
  - The wholesaling and independent public warehousing sectors grew less quickly just after the incentive enactment than before.
- On the other hand, the program may yield improved productivity, as real wages per employee have tended to increase for the applicant firms.
- The program appears to have had no significant effect on the regional diversification of the wholesaling and independent public warehousing sectors within the state.
- The program appears to have had no significant effect on the underlying goal of the law, improvement in interstate trade, with respect to improvement in employment levels or wages in the wholesale or independent public warehousing sectors when compared to national totals and averages.

The apparent limited effectiveness of the warehouse incentive program on broader economic levels reflects the small size of the applicant group in the first four years of the program. Relative to the firms' respective industries, the collective size of the applicants implies that it would have been difficult for the incentive program to yield significant impacts.

Current results notwithstanding, the positive influence of the program might possibly become evident in the future as additional firms participate in the program and additional data on wholesale trade and warehousing becomes available.




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Purpose of Report

The Warehouse Tax Incentive Program law (E2SSB 5074) requires legislative staff to report on the economic effects of the exemption. To address the requirements, the report is assembled as follows. The first and second sections provide background to enactment of the law and provisions of the law itself. The third section discusses the nature of the program participants' business profiles in order to provide context about the types of businesses that have applied for the incentive. The fourth section contains statistics that summarize utilization of the incentive. This section is provided to show to what extent, for what purpose, and how the incentive has been used in the first four years of the program.

The fifth section discusses the possible economic effects of the program and contains a number of subsections. The first three subsections consider step-changes that could be attributed to the program in terms of employment, wages, and warehouse space. These subsections provide some insight as to the changes in business' profiles that occurred, possibly as a result of the program. The next five subsections provide comparative analyses. This part of the report explores the possible benefits of the program by comparing comparable data across business levels and between similar time periods before and after enactment. The last subsection concerns intrastate comparison of regional economic changes for the purpose of evaluating whether the program may have had diversifying effects in geographic terms.

The sixth section of the report is a discussion of the data results. The discussion provides analysis according to the principal report requirements: estimation of the effects of the program on the creation or retention of family-wage jobs and diversification of the state's economy, as well as a finding on whether the program is achieving its goals.

## Background

In 1997, the Legislature passed chapter 450, laws of 1997 (E2SSB 5074), providing a sales tax exemption for the construction and equipping of large warehouses and grain elevators. The legislation was based on a report published in December 1996 by the Department of Revenue and an advisory committee comprising legislators and representatives of the private sector, port districts, and local governments. The report recommended new tax incentives for investment in large warehousing operations in order to increase trade and create new family wage jobs, while minimizing the impact on existing tax revenues.

E2SSB 5074 directed the legislative fiscal committees to report to the Legislature by December 1, 2001 on the performance of this program.

## The Warehouse Tax Incentive

Under the law passed in 1997, wholesalers, third-party warehousers, grain elevator operators and retailers who own or operate distribution centers are eligible for exemptions from the state sales and use tax. Table 1 gives a summary of the criteria and nature of the exemption.

**Table 1.**
**Tax Incentives Provided Under E2SSB 5074, Laws of 1997**

| | Taxes Paid on Construction Costs | Material Handling and Racking Equipment Costs |
|---|---|---|
| Warehouses (over 200,000 square feet) | 100% | 50% |
| Grain elevators: | | |
| Over 2 million bushels | 100% | 50% |
| Between 1 and 2 million bushels | 50% | 50% |

The equipment exemption is available to both new and existing warehouses and grain elevators.

The warehouse or grain elevator operations are required to initially pay the state and local sales and use taxes and then apply to the Department of Revenue for a remittance of the state portion, which is 6.5 percent of the purchase price. The warehouse tax incentive does not exempt local government sales and use taxes.

## Participant Profile

The Warehouse Tax Incentive Program began in May 1997. Through the end of fiscal year 2001, 30 businesses had taken the warehouse incentive at 31 locations. Approximately 4.1

million square feet of warehouse space had been added and over $17 million in equipment purchases had been made with the aid of the incentive.[1]

*Profile of Businesses in Application Group as a Whole*

In calendar year 2000, the payrolls at the locations where the incentive was taken totaled $188 million, with a median of about $5.4 million[2]. The payrolls of these businesses totaled over $1.0 billion statewide, with a median of $9.5 million. For the firms that received the employment benefit of the incentive, an employment level of 5,529 was reported for the locations where the exemption was used, with a median location level of 179.[3] For the same firms, employment was over 29,000 statewide in calendar year 2000, with a median of 266. The results, along with total amount of warehouse space occupied, are summarized in table 2.

**Table 2.**
**Profile of Tax Incentive Applicants:**
**At Location Where Remittance was Taken, and Statewide**

| | | 2000 Payroll | 2000 Employment | 2001 Space[4] |
|---|---|---|---|---|
| Business Location of Project | Median | $ 5,361,794 | 179 | 278,772 sq ft & 3,700,000 bu |
| | Total | $ 188,352,755 | 5,529 | 6,804,958 sq ft & 9,800,000 bu |
| Business - Statewide | Median | $ 9,490,484 | 266 | 602,000 sq ft & 4,376,000 bu |
| | Total | $ 1,018,980,597 | 29,221 | 12,121,909 sq ft & 18,904,000 bu |

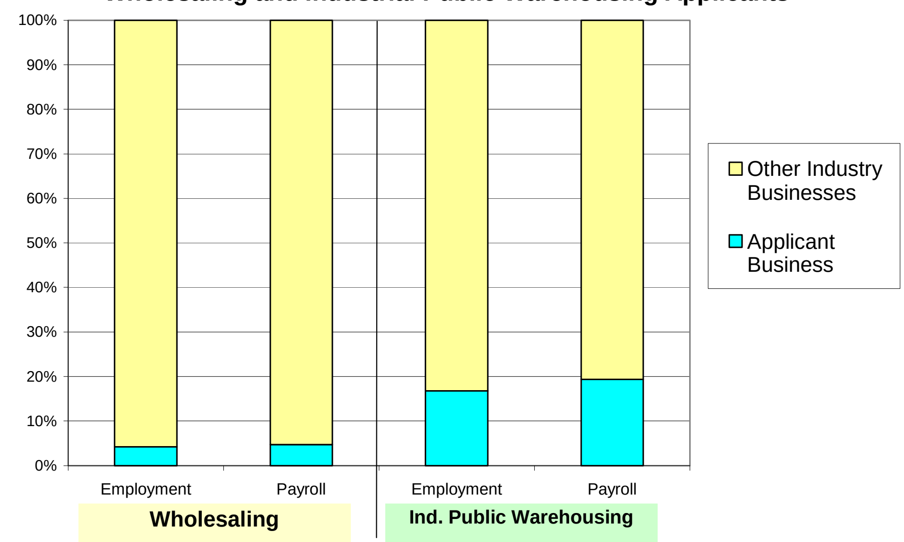
*Profile of the Applicant Businesses, by Industry*

The firms that applied for and/or received the warehouse incentive benefits through fiscal year 2001 represent several industries, including wholesaling, independent public warehousing and storage, retail distribution, real estate development, and others. The applicant firms represent a small sample in economic terms in relation to the statewide industries. The applicants in the wholesaling and independent public warehousing industries provide an illustration. For the nine wholesale business applicants, the shares of statewide employment and payroll for calendar year

[1] While grain elevator capacity has also been added, taxpayer data disclosure requirements prohibit the reporting of any associated data, due to the small number of grain elevator companies that took the exemption.
[2] Payroll and employment data is based on available data for 22 of the 31 locations at which the incentive was taken.
[3] Several firms that took the incentive did so for real estate development purposes. Under the incentive law, these companies were required to pass the economic benefits through to the lessees.
[4] Amounts correspond to the locations where payroll and employment data was available. Warehouse space is given in square feet (sq ft), while grain elevator space is given in bushels (bu).

2000 were 4 percent and 5 percent, respectively. For the eight public warehousing and storage business applicants, the corresponding shares were 17 percent and 19 percent, respectively. Figure 1 summarizes the characteristics of the business applicants for these industries.

**Figure 1.**
**Share of Industry Employment and Payroll, CY 2000: Wholesaling and Industrial Public Warehousing Applicants**




The 17 firms in the wholesaling and the public warehousing industries that have taken the warehouse incentive constitute less than 2 percent of the total number of firms in the respective industries.

*Profile of the Applicant Businesses, by Use of the Tax Incentive*

The businesses that have utilized the warehouse incentive may also be profiled according to whether the use of the incentive was for equipment purchases or for construction (or construction and equipment). At the location where the incentive was utilized, businesses that used the incentive for only equipment purchases had a median employment level in calendar year 2000 of 240, while those that used the incentive for construction had a median employment level of 84. The corresponding average wage per employee was $33,117 and $36,015 for those businesses utilizing the incentive for equipment and for construction, respectively. On a statewide basis, the differences were even more pronounced. In all, the data suggests that those firms that used the incentive for construction were likely small but growing and paid employees significantly more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(especially on a statewide bases) than firms that utilized the incentive for equipment purchases only. The results are shown in table 3.

**Table 3.**
**Profile of Tax Incentive Applicants:**
**At Location Where Remittance was Taken, and Statewide**

| | | Equipment Only | Construction or Construction/Eqpmnt |
|---|---|---|---|
| Business Location of Project | Median Employment | 240 | 84 |
| | Avg. Wage per Empl. | $33,117 | $36,015 |
| Business - Statewide | Median Employment | 378 | 151 |
| | Avg. Wage per Empl. | $28,724 | $47,201 |

## Use of the Warehouse Tax Incentive

Of the 30 firms that took the incentive through the end of fiscal year 2001, 15 received a 50 percent remittance on sales and use tax paid on equipment purchases at existing large warehouses and grain elevators. The other 15 received remittances on sales and use taxes paid for both construction costs and equipment purchases at 16 locations.

Warehousing and grain elevator businesses took a total of $8.5 million worth of remittances through fiscal year 2001. In the four fiscal years in which remittances have been taken, use of the incentive peaked in FY 2000 at $3.8 million. Results are shown in Figure 2.[5]

### *Use of the Incentive by Purpose*

The warehouse tax incentive program has been utilized most in connection with new warehouse construction or warehouse expansion. Of the $8.5 million in remittances taken, over $7 million was for sales tax paid on warehouse construction or expansion. With respect to warehouse equipment purchases, remittances totaling almost $800,000 were taken. Remittances of about $750,000 were taken for grain elevator construction, expansion, and equipment purchases[6]. The breakdown is shown in figure 3.

[5] The small amount of activity from May 1997 to June 1997 is incorporated within the FY 1998 data.
[6] Due to taxpayer disclosure requirements, a separate breakdown for grain elevator construction/expansion versus equipment could not be provided.

Figure 2.
Warehouse Tax Incentive: Usage
Amount Taken by Fiscal Year, 1998-2001

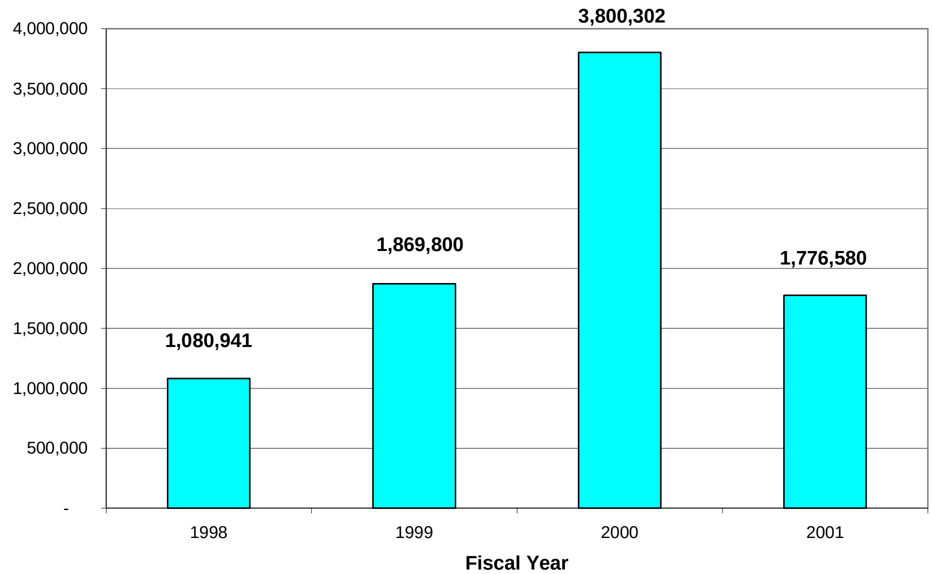
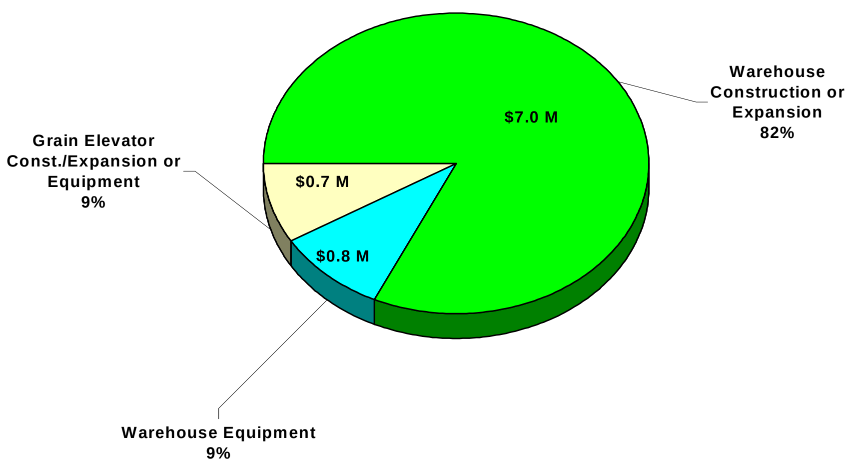



Figure 3.
Warehouse Tax Incentive: Use by Purpose

Total Tax Incentive Use: $8.5 M



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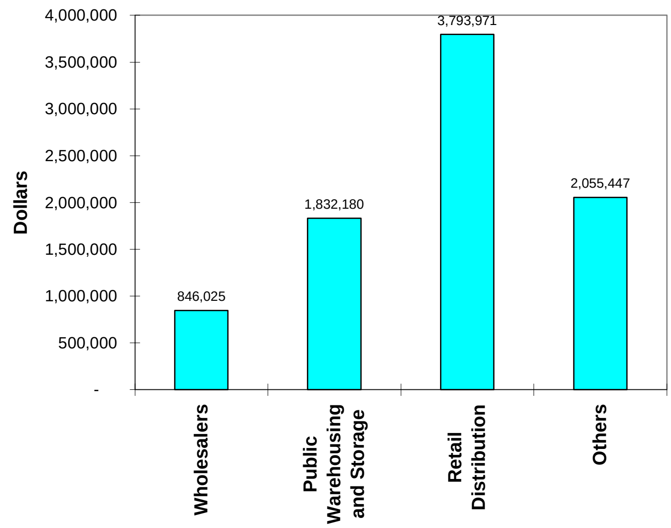
*Use of the Incentive by Industry*

On an industry basis, firms in several industries, including wholesaling, independent public warehousing and storage, retail distribution, and several others, have used the warehouse tax incentive. Through fiscal year 2001, retail distribution led the way with $3.8 million worth of exemptions taken; public warehouses, $1.8 million; wholesale companies, $0.8 million; and other companies, $2.1 million[7]. The results are presented in Figure 4.

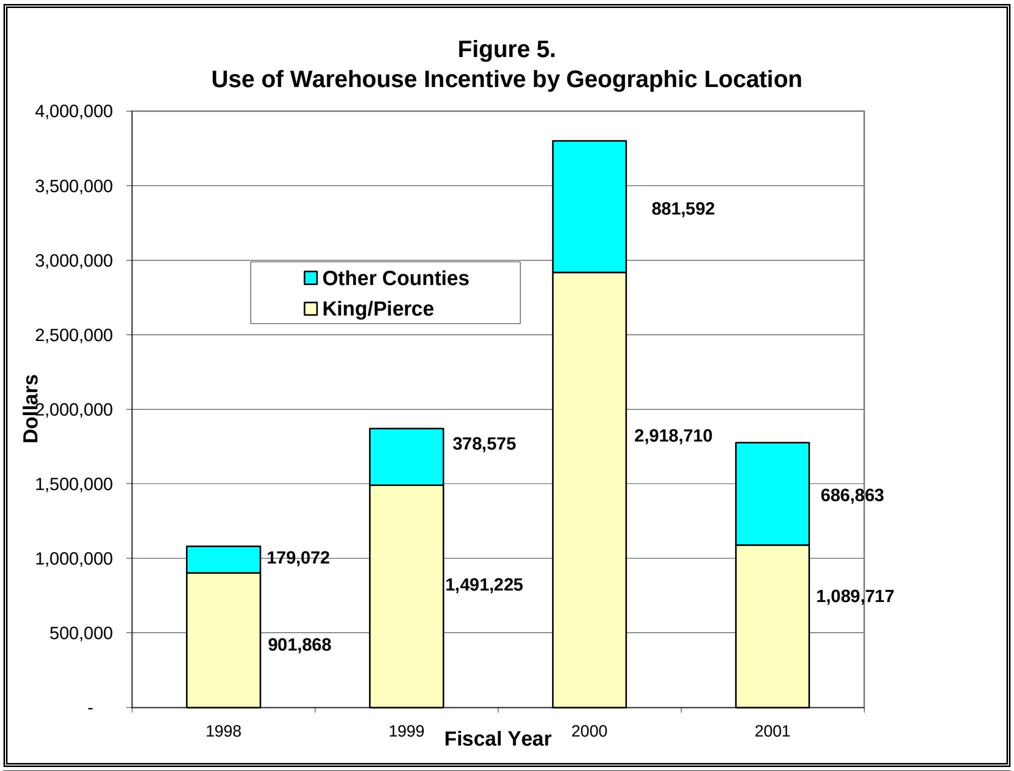
**Figure 4.**
**Warehouse Tax Exemption: Use by Industry**




*Use of the Incentive by Geographic Location*

Geographically, the warehouse tax incentive has been utilized all over the state. Initially the incentive was used in King and Pierce Counties more than others; over 80 percent of the exempted amounts taken in FY 1998 were in King and Pierce. As time has passed, however, counties other than King and Pierce have used the incentive to a greater degree. In FY 2001, other counties took almost 40 percent of the $1.8 million in exemptions. The data is summarized in figure 5.

[7] "Other" industries include real estate development, building contractors, paper and allied products, and others.




Economic Effects[8]

The following pages present an evaluation of survey, government, and other data concerning employment, wages, and warehouse space of the warehouse incentive program applicants and associated industries. The evaluations of the potential economic effects of the warehouse incentive program are divided into three areas: step-change, comparative, and diversification.

The first three subsections evaluate apparent step-change effects of the program. In these subsections, current profile data of the applicant location is compared with data from the period immediately prior to the enactment of the incentive, so as to explore whether there was a change in employment, wages, and amount of warehouse space. Because applicants represent the segments of their respective industries that are growing, positive economic changes are expected.[9]

[8] While analysis of economic impacts included consideration of the independent public warehousing and wholesaling industries, no results are provided for the retail distribution sector because of the small number of taxpayers in the incentive applicant group and irregularities in the reported data for one of the taxpayers.

[9] It is assumed that any firm that expanded its warehouse space or invested in new warehouse equipment would have participated in the incentive program.

Subsections three through eight explore further the possible economic effects of the incentive program through temporal and cross-sectional analyses. First, economic data from the three-year period after the enactment of the incentive is compared with data from the three-year period immediately preceding enactment. Within the period following enactment, incentive location and firm-level data is compared to similar data for the state and national industries. Through these comparisons, effects of the program may be more readily apparent.

Finally, subsection nine examines step changes in regional employment and wages within the state, in order to evaluate the possible economic diversification effects of the program.

*Step-Change Evaluations*

1. Change in Level of Employment

Employment data was evaluated for the firms that received employment benefits of the incentive. (In several cases, these were businesses that did not actually take the exemption, but leased or purchased warehouse space from real estate developers that did. Under the exemption law, these latter firms were required to pass the economic benefit through to the lessee or purchaser.) The evaluation was conducted for the location where the incentive was used, for the firm statewide, and for the industry. Based on employment records and survey data[10], 64 percent of the business locations indicated increased employment. A majority of these were locations where the exemption was taken at least in part for the construction of new warehouse space. At locations where businesses utilized the exemption for equipment purchases only, on the other hand, most had no increased employment. The results are summarized in Table 4.

**Table 3.**
**Share of Tax Incentive Applicants with Reported Employment**

| Exemption taken on: | | Locations with Employment Increase | Locations with No Employment Increase | Total |
|---|---|---|---|---|
| Equipment | | 18 % | 27 % | 45 % |
| Construction | | 46 % | 9 % | 55 % |
| | Total: | 64 % | 36 % | 100 % |

Table 4 provides the total reported change in average annual employment for the locations since the point that the project was put into operation.

[10] Employment data was obtained for 22 of the locations where the exemption was taken.


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**Table 4.**
**Employment at Facility Locations**

| Exemption taken on: | Employment Change at Locations with Increase | Employment Change at Locations with No Increase | Total |
|---|---|---|---|
| Equipment | 98 | -6 | 92 |
| Construction | 729 | -87 | 642 |
| Total: | 827 | -93 | 734 |

The effect of the incentive was also evaluated at the statewide business level. Overall, the businesses that took the exemption increased employment by 3,904 on a statewide basis. For the firms in which there were employment increases at the location for which the remittance was taken, 4,040 positions were added statewide. For the firms where there was no increase in employment at the sites where the remittance was taken, statewide employment decreased by 136 positions.

2. Change in Real Wages per Employee

With respect to wages, an evaluation was done to see whether there was a direct change in terms of real wages paid per employee. (Real wages are actual wages adjusted by the consumer price index to take into account loss of purchasing power over time.) Based upon an analysis of wage and employment data[11], 74 percent of the applicant firms realized apparent gains in real wages paid per employee, between the year prior to when the exemption was first taken and calendar year 2000. Of these, a majority were firms that used the incentive for equipment purchases only. The results are summarized in table 5.

**Table 5.**
**Share of Tax Incentive Applicants with Increased Real Wages**

| Exemption taken on: | Locations with Wage Increase | Locations with No Wage Increase | Locations where wage effect not yet known | Total |
|---|---|---|---|---|
| Equipment | 42% | 0% | 5% | 47% |
| Construction | 32% | 11% | 11% | 53% |
| Total: | 74% | 11% | 16% | 100% |

Of existing locations where the data showed an increase in real wages per employee, data shows that there was an increase in wages of $445 per employee from the year prior to when the

[11] Both wage and employment data could be obtained for 19 of the locations where the exemption was taken. However, because of the recent timing of when the remittance was taken for several firms, the wage effect of the remittance is evident for only 16 locations.

exemption was first taken to calendar year 2000. This change represents a 1.3 percent increase from the average per-employee annual wage of $35,074 in the year prior to when the remittance was first taken.

No evaluation was conducted at the statewide level for the applicant firms to estimate whether there was a direct change in real wages paid per employee. Such an analysis would not have been meaningful due to several irregularities in the total amount of wages reported for several of the businesses on a statewide basis.

3. Amount of Space Added

The businesses that took the warehouse tax incentive added both warehouse space and grain elevator space. A total of 11 firms added warehouse space at 14 locations totaling 4,052,534 square feet, the median firm adding 242,000 square feet[12]. Two firms added grain elevator space[13]. For the businesses statewide, the total amount of space that was added is not known, because several of the firms are real estate developers and made both purchases and sales of property between the time the remittance was taken and the end of 2001.

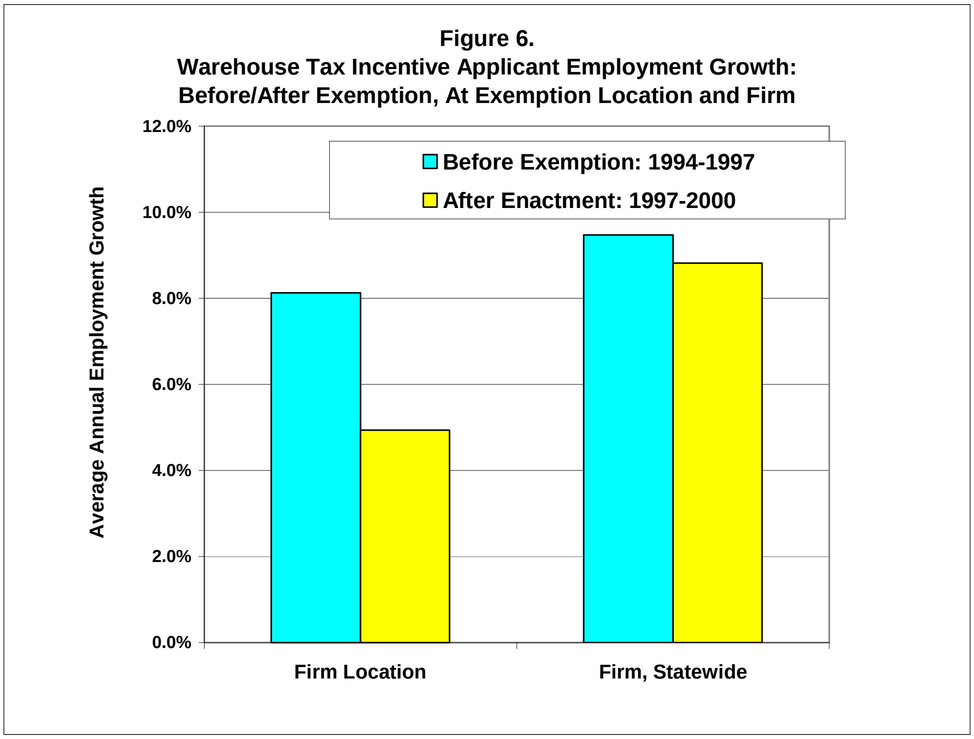
*Comparative Evaluations*

4. Comparing Employment Growth After Incentive Enactment to Growth Before Enactment

To evaluate the effect of the tax remittance on the creation or retention of employment, growth in employment in the three years after the incentive enactment was compared to the growth in the three years before enactment for the business locations using the exemption.

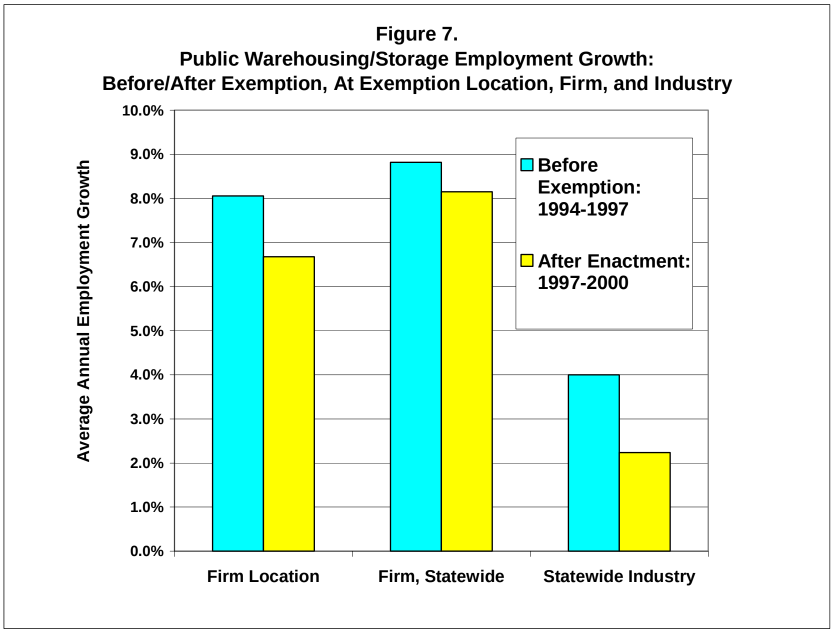
[12] Because for several firms the space "added" actually replaced existing warehouse space, the net amount of space added was actually 3,716,358 square feet.
[13] Due to taxpayer disclosure requirements, the amount of grain elevator space could not be provided.

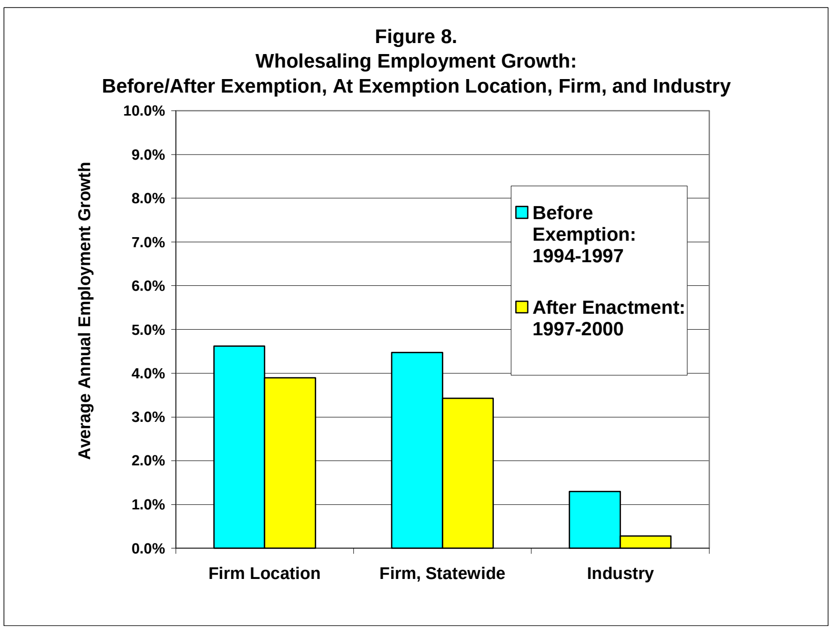
The average annual growth in employment for the incentive applicants in the three calendar years after the enactment of the incentive in 1997 was 4.9 percent at the location and 8.8 percent for the firm statewide. This compares to average annual growth of 8.1 percent and 9.5 percent, respectively, in the immediate three preceding years. The employment data is shown in Figure 6.




For the two industries most represented by the applicant group, additional evaluations were conducted. For the applicants in the independent public warehousing and storage industry, employment grew from 338 in calendar year 1997 to 410 in 2000 at the location where the exemption was taken, an average annual growth of 6.7 percent. For the firms statewide, employment grew from 500 to 632 for the same period, or growth of 8.1 percent annually. For the preceding period 1994-1997, average annual employment growth rates were 8.1 percent and 8.8 percent for the location at which the exemption was taken and for the firm statewide, respectively. The industry statewide grew from 4,345 persons in 1997 to 5,031 in 2000, growth of 2.2 percent annually. This compares to average annual growth of 4.0 percent prior to the incentive enactment. The data is shown in figure 7.

For the applicants in the wholesaling industry, data is shown in figure 8. Employment in the 1997-2000 period grew from 2,194 to 2,460 at the location where the remittance was taken, annual growth of 3.9 percent. Statewide, personnel in these businesses grew from 2,472 to 2,734,

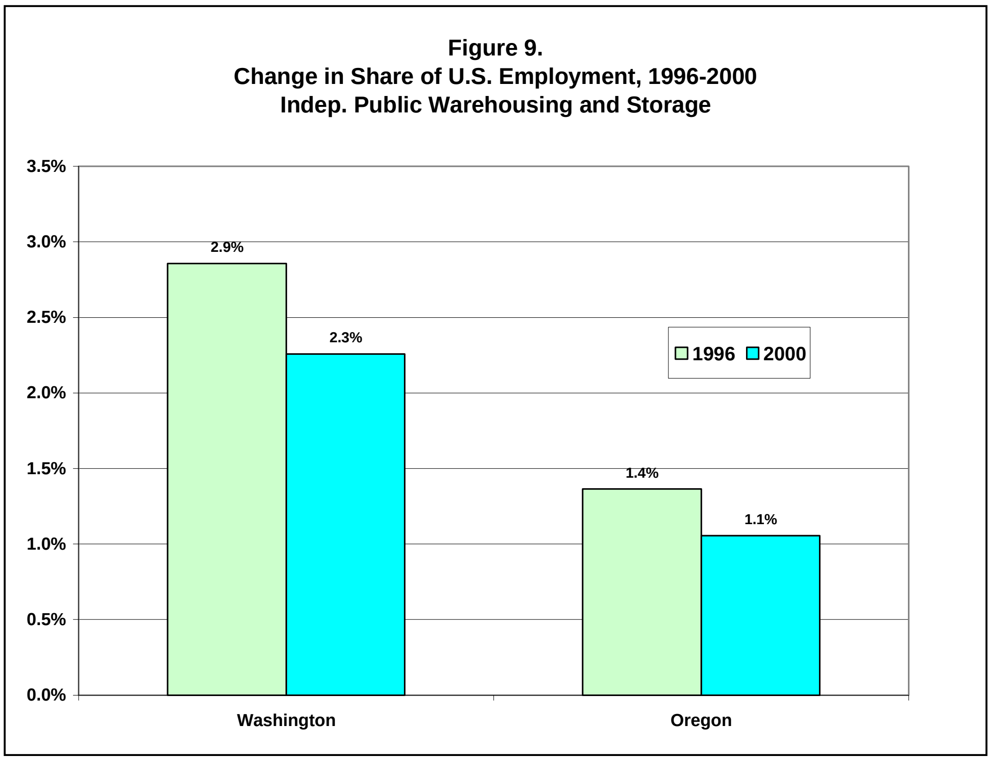



equating to 3.4 percent growth annually. For the preceding period 1994-1997, average annual employment growth rates for the locations and for the firms statewide were 4.6 percent and 4.5 percent, respectively. The applicants' data compares to statewide industry growth rates of 0.3 percent annually (from 63,924 to 64,465 persons) after enactment and 1.3 percent before.

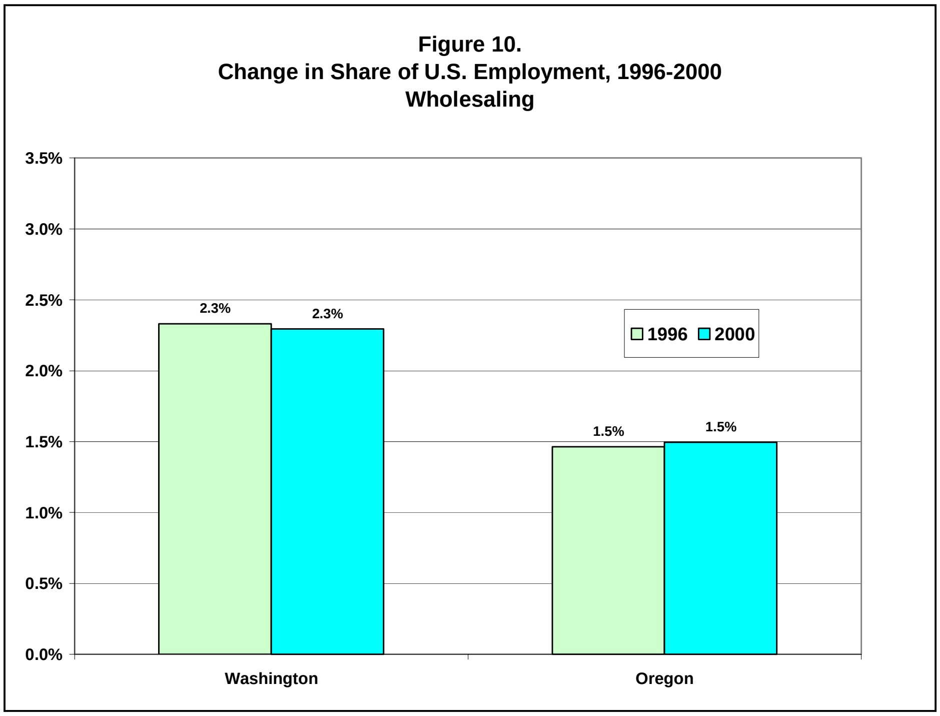
5. Comparing Share of U.S. Total Employment Before and After Incentive Enactment

To evaluate whether the warehouse incentive may have improved interstate trade between Washington and other states, Washington's share of total United States employment for the independent public warehousing and wholesaling industries in calendar year 2000 was compared with that of calendar year 1996, the year prior to enactment of the incentive. For the independent public warehousing industry, Washington's share of the U.S. total declined from 2.9 percent in 1996 to 2.3 percent in 2000. For the wholesaling industry, Washington's share hardly changed, remaining close to 2.3 percent. The results are shown in figures 9 and 10, along with comparable data for the state of Oregon for comparison.




6. Comparing Real Wage Growth Before and After Incentive Enactment

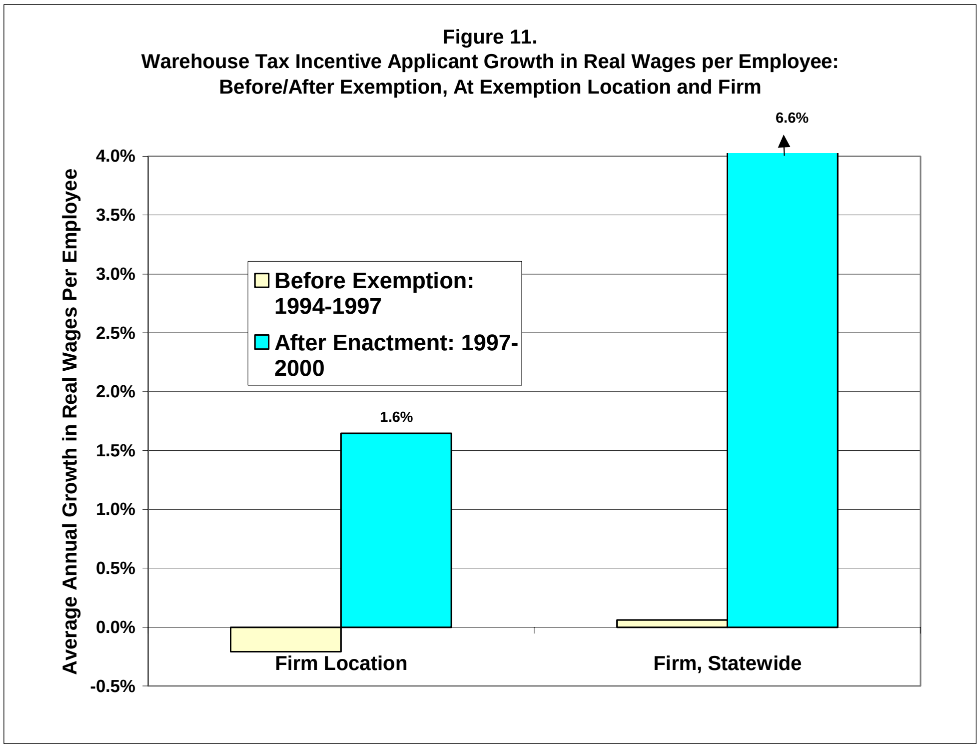
An evaluation was done to compare how the warehouse tax incentive may have impacted real wages paid per employee. Using wage and employment data, the average annual growth rate in real wages per employee was determined for the three-year period after enactment of the tax exemption for incentive applicant businesses, and compared to the average annual growth rate for the preceding three-year period[14]. The locational growth rate of the subgroup of applicants within the public warehousing and storage and the wholesaling industries was then compared to the growth rates of the business statewide and the state industry as a whole for the same period.




Data obtained for applicant firms' locations indicates that per-employee real wages grew from $32,794 to $32,853 from 1997 to 2000, an average annual growth rate of 0.1 percent. This compares to an average annual growth rate of –0.2 percent for the period from 1994-1997 for the same group. For the business as a whole statewide, post-enactment wages grew from $33,282 in calendar year 1997 to $40,357 in 2000, indicating an annual growth rate of 6.6 percent for the period.[15] Results are shown in figure 11.

With respect to the applicant subgroup within the public warehousing and storage industry, real wages increased at the location where the incentive was used from $27,824 in 1997 to $28,933 in 2000, average annual growth of 1.3 percent; for the 1994-1997 period, the growth rate was 3.5 percent. For the firm statewide, real wages per employee were $28,703 in 1997 and $29,598 in

[14] Both wage and employment data could be obtained for 19 of the locations where the exemption was taken. However, because of the recent timing of when the remittance was taken for several firms, the wage effect of the remittance is evident for only 16 locations.
[15] The relatively large increase in per-employee wages at the firm level during the period after 1997 may be the consequence of exceptionally good financial years for several of the larger applicants in the late 1990s.




2000, average annual growth of 1.0 percent. For the previous three years, annual growth was 2.5 percent. On the other hand, statewide industry real wage growth per employee was higher in the period after enactment, 3.3 percent (reflecting wages in 1997 of $24,313 and in 2000 of $26,784) as compared to 0.0 percent before. The comparison of rates is shown in Figure 12.

With respect to the subgroup of applicants in the wholesaling industry, the average annual growth rates in real wages per employee in the period after enactment of the incentive were 0.3 percent at the location where the incentive was used, reflecting increases in real wages from $34,065 to $34,414, and 1.2 percent for the firm statewide, corresponding to an increase in wages from $35,575 to $36,885. For the industry statewide, real wages increased from $32,114 to $33,942 for the period, or 1.9 percent on average per year. For the three year period prior to enactment, the comparable growth rates were -0.4 percent, 0.4 percent, and 1.8 percent, respectively. These results are shown in figure 13.

Figure 12.
Public Warehousing/Storage Growth in Real Wages per Employee
Before/After Exemption: At Location, Firm, and for Industry

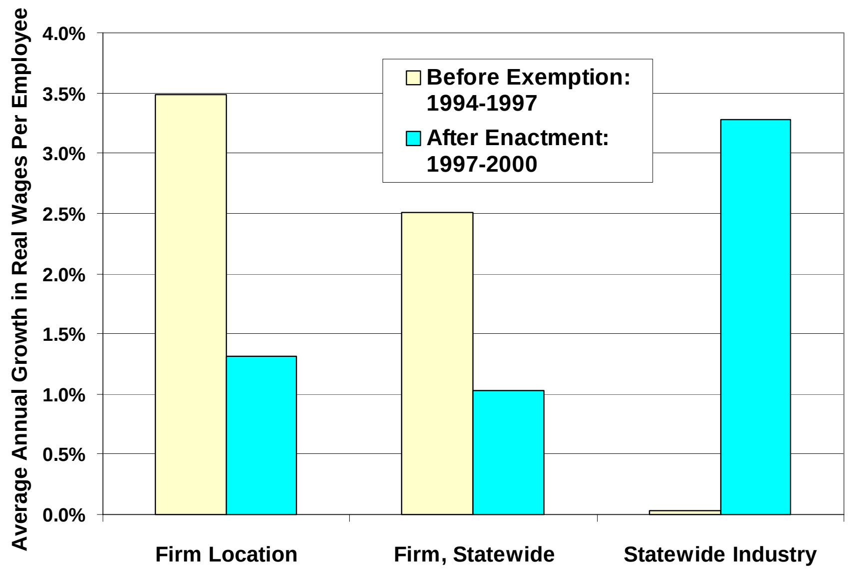
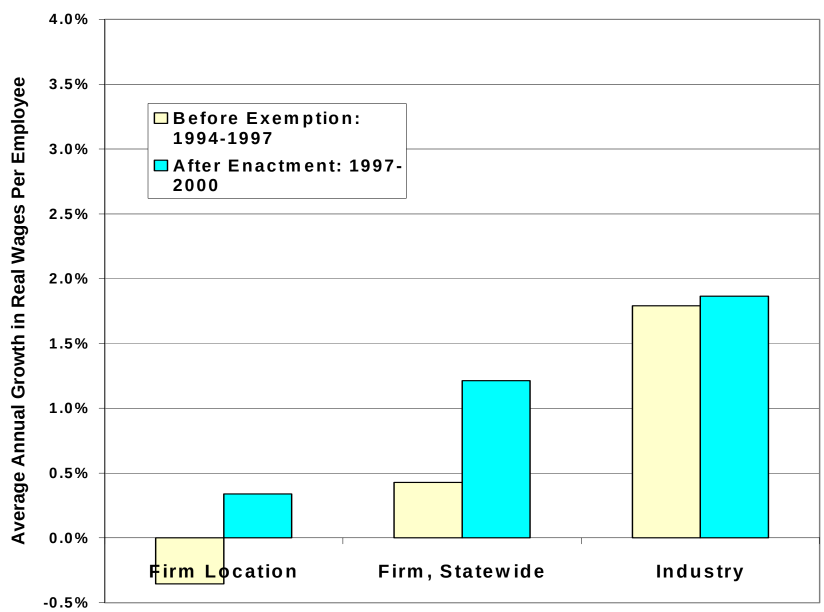



Figure 13.
Wholesaling Growth in Real Wages per Employee
Before/After Exemption: At Location, Firm, and for Industry

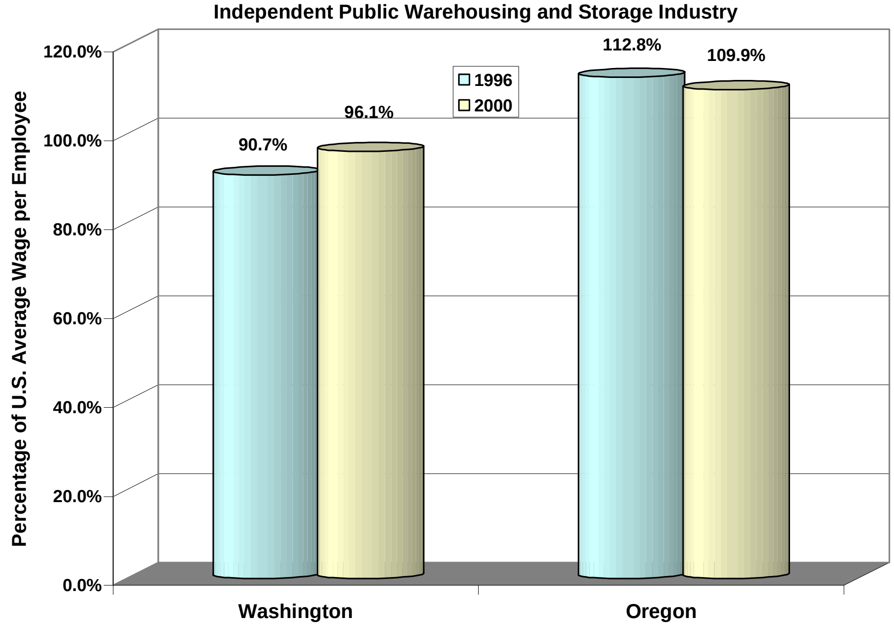


7. Comparing Change in Wages per Employee – Washington, Oregon, and the U.S.

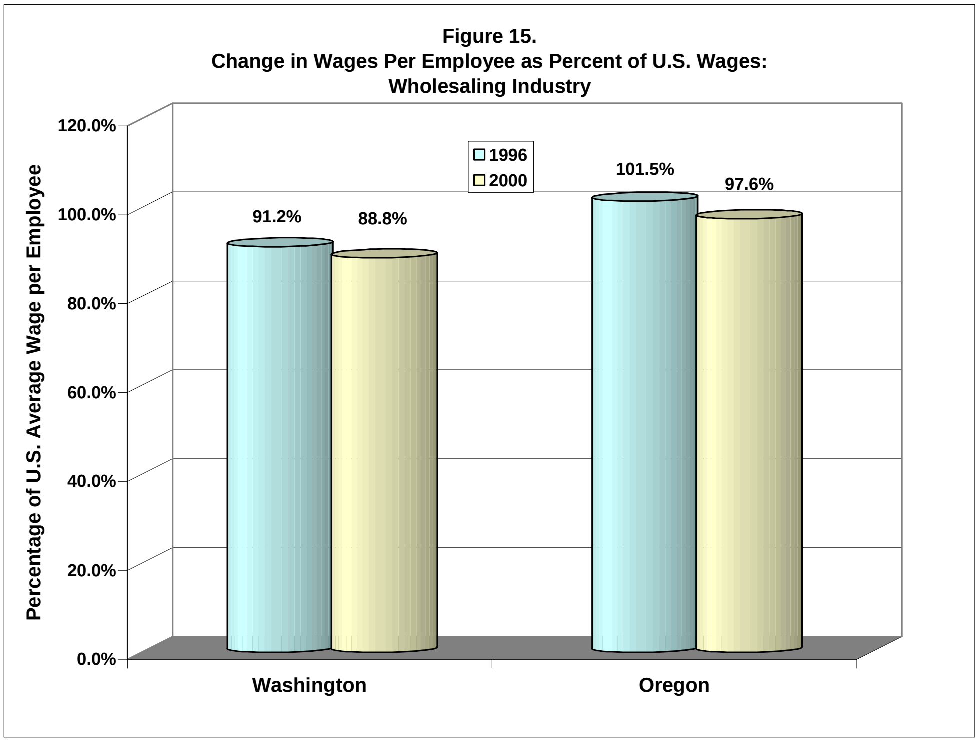
To further evaluate possible effects on interstate trade, wages per employee for the public warehousing and wholesaling industries for Washington were compared to the average U.S. wages. This comparison was made for the periods both before and after enactment of the warehousing tax incentive.

In 1996, prior to enactment of the incentive, per-employee wages in Washington in the public warehousing industry were less than 91 percent of the national average. In 2000, three years after enactment, state wages had increased to 96 percent of the national average. This data, along with comparable data for Oregon, are shown in figure 14.

Figure 14.
Change in Wages Per Employee as Percent of U.S. Wages:
Independent Public Warehousing and Storage Industry




On the other hand, in the wholesaling industry, wages decreased from 91 percent of the national average in 1996 to 89 percent in 2000. This data is shown in figure 15, along with comparable data for Oregon.




8. Comparing Growth in Warehouse Space for the Incentive Applicants to Growth in Warehouse Space in Certain Real Estate Markets

As noted previously, businesses that took the warehouse tax incentive constructed over 4 million square feet in new warehouse space at the locations where the exemption was taken. Of this total, about 1.7 million square feet was added by businesses other than real estate developers.[16] With a total statewide inventory of 10.1 million square feet for this "other" subgroup, the additional space represented a 20.3 percent increase, or 4.7 percent average annual growth.

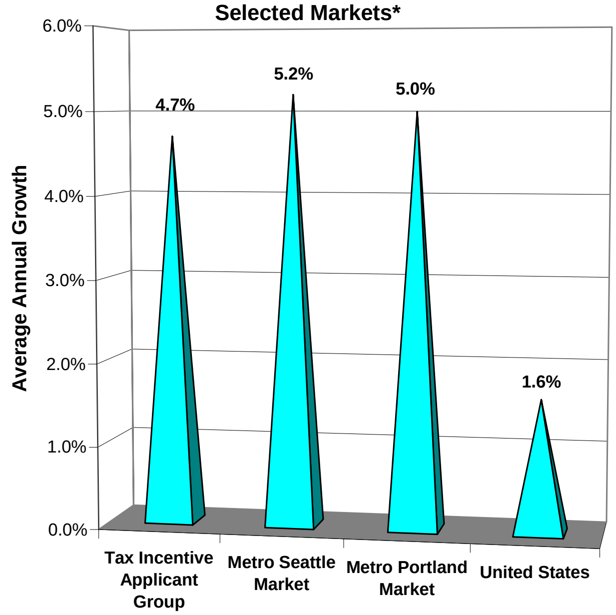
While comparable data for the industry statewide or nationwide is not readily available, growth in particular real estate markets that are tracked by specialty firms provides some insight. According to REIS, a real estate investing analysis firm, the total industrial warehouse space in the 50 major real estate markets tracked nationally grew from 7.282 billion square feet in 1996 to 7.872 billion square feet in 2001, an 8 percent increase, or 1.6 percent average annual growth.[17] Within the Pacific Northwest, data obtained from the Urban Land Institute provides detail on

[16] The impact by incentive applicants who are real estate developers is omitted from this analysis due to insufficient data with respect to churning and market activity in general.
[17] The REIS data covers multi-tenant warehouse and distributions facilities and research/development facilities, with a minimum of 25.000 square feet, largely in metropolitan statistical areas (MSAs), as defined by the U.S. Census Bureau.

changes in the Seattle and Portland Markets.[18] In the Seattle area, warehouse and retail distribution space increased from 71.1 million square feet in 1998 to 82.9 million in 2001, an increase of about 16.5 percent, or 5.2 percent average annual growth. In the Portland area, warehouse and retail distribution space increased from 111.8 million square feet in 1998 to 123.4 million square feet in 2000, an annual growth rate of about 5.0 percent.[19]

A comparison of growth in markets is shown in figure 16.

**Figure 16.**
**Recent Average Annual Growth in Warehousing Space: Selected Markets***




* The U.S. average reflects data from 1996 to 2001. Seattle market data relfects growth from 1998 to 2001. Portland data reflects growth from 1998 to 2000.

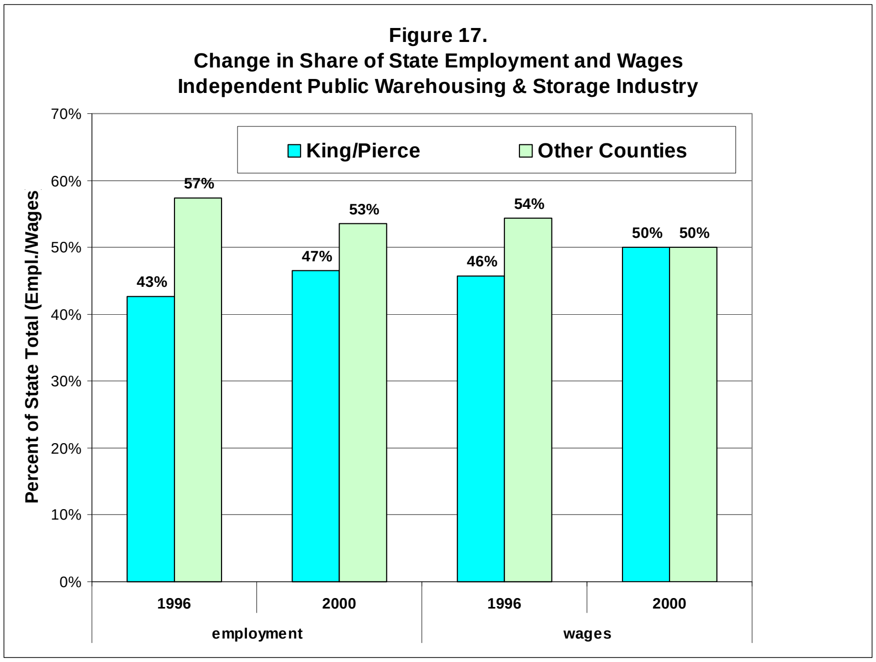
*Diversification Evaluation*

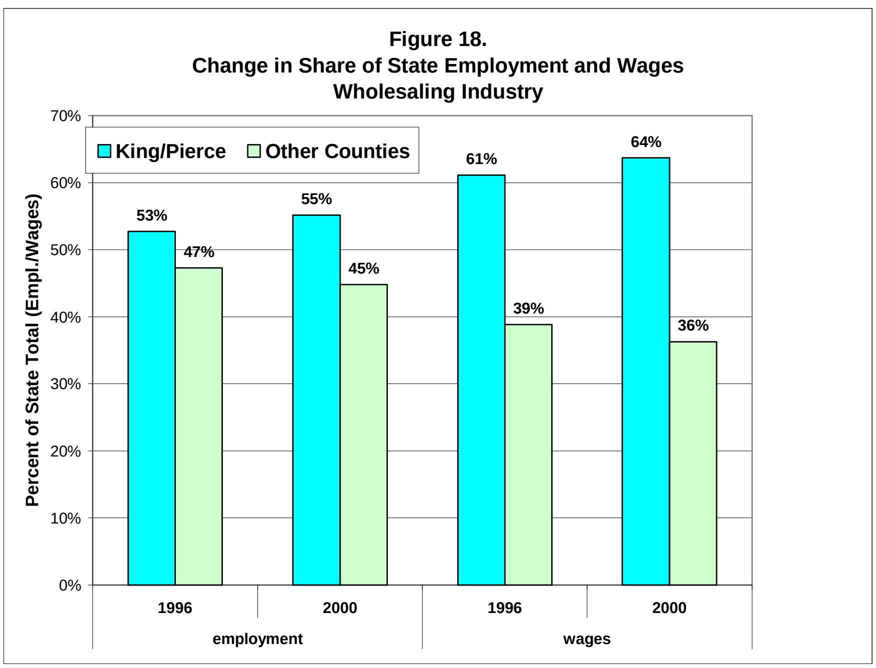
9. Change in Share of State Employment and Wages by Region

To evaluate whether the warehouse tax incentive program may have had a diversifying effect on the state economy, the shares of state totals by region for employment and wages prior to enactment of the incentive was compared with those in calendar year 2000. For the purposes of the evaluation, because of the small sample size of the taxpayers participating in the program, the state was divided into two regions: King/Pierce Counties and Other Counties.

[18] The markets covered are the Seattle MSA and the Portland MSA.
[19] Accurate data for 2001 was not available for Portland.

In the independent public warehousing industry statewide, the shares of the state totals for employment and wages for counties other than King/Pierce were 57 and 54 percent, respectively, in 1996. By calendar year 2000, these shares had dropped to 53 and 50 percent, respectively.



The results are shown in figure 17.

Figure 18 provides comparable results for the wholesaling industry statewide. "Other" counties held shares of state totals for employment and wages of 47 and 39 percent, respectively, in calendar year 1996. In calendar year 2000, these shares had dropped to 45 and 36 percent, respectively.

A comparable analysis was not possible for both wholesaling and independent public warehousing industries at the level of the location where the incentive was taken, because of the small sample size of the industry subgroups within the applicant group. Analysis of the group of applicants as a whole, however, indicates that for the group the share of employment for counties other than King and Pierce increased slightly in the three years that the incentive program was in effect to calendar year 2000, but that the share of wages declined by a greater margin.

Discussion

The law that authorized the warehouse tax incentive in 1997, E2SSB 5074, required that the report, among other things, address the following items:

1. Effect of the incentive on the creation or retention of family-wage jobs;
2. Effect of the incentive on the diversification of the state's economy;
3. Performance of the incentive program in achieving its goals.

Presumably, the goals of the incentive program can be inferred from the Legislative intent "to stimulate interstate trade by providing tax incentives to those persons in the warehouse and distribution industry engaged in highly competitive trade."

The following subsections discuss the results of the analysis in this report with respect to these items.

However, the evaluation of the impacts of the program on employment, wages, and other measures of economic performance should be understood in context. Because of the short time that the program has been in existence and due to the small size of the number of taxpayers that have taken the incentive relative to the industries as a whole, and because it is not possible to know all factors that contribute to business decisions about employment and wages, the true effects of the incentive program are very difficult to discern.

1. Creation/Retention of Family-Wage Jobs[20]

With respect to the creation of jobs, the warehouse tax incentive program appears to have had only limited, local success. For the locations that took the incentive for construction purposes, a majority of the firms increased employment (see table 3). However, for the firms that took the incentive for equipment purchases only, a majority did not increase employment at the locations where the incentive was taken. Moreover, the incentive did not appear to stimulate or accelerate growth in employment for the location or the firm statewide relative to growth in the three-year period immediately preceding enactment of the incentive (see fig. 6). In addition, for the specific industries of wholesaling and independent public warehousing, there appeared to be no positive employment effects for either the location, firm, or industry statewide (see figs. 7 and 8).

Despite the lack of apparent positive employment impacts in general, it is possible that to some extent the incentive program may have helped forestall steeper declines in employment that would have occurred otherwise.

With respect to wages, the effects of the program may be more positive. For a majority of the firms, there were gains in per-employee real wages at the locations where the incentive was taken (see table 5). In addition, growth in per-employee real wages at both the location level and the firm level statewide were higher during the three-year period after enactment of the incentive than in the previous three years (see fig. 11). For the specific industry subgroups examined, wholesaling and independent public warehousing, results appeared to be more mixed. While, relative to the preceding period, growth in real wages was greater after enactment of the incentive for locations and firms the wholesaling industry (see fig. 13), the converse was true for the applicants in the independent public warehousing industry, a striking outcome considering the changes in industry growth statewide (see fig. 12).

In general, the data does not indicate improvements in employment for the applicant locations and for the firms statewide in the period after enactment of the incentive, but does show that productivity improved, in terms of higher real wages per employee. While available data does not exist regarding all factors that influence business decision-making concerning the increase of wages, it is likely that reduced tax costs resulting from the warehouse incentive program participation played a contributory role.

2. Diversification of the State Economy

Diversification of the state economy was evaluated in terms of whether employment and/or wages shifted from King and Pierce Counties to other counties of the state. The evaluation was

[20] "Family-wage jobs" was not defined in the enacting legislation. As an alternative, the discussion addresses employment and wages separately.

conducted for the wholesaling and independent public warehousing industries at the state level only, as the sample size of the applicant subgroups was insufficient to allow for evaluation at the location of the exemption. However, more recent use of the incentive does indicate a possible trend towards investment outside of King and Pierce Counties (see fig. 5).

Data at the industry level shows that, for the period of analysis, the share of employment and wages in other counties declined relative to those for King and Pierce counties (see figs. 17 and 18). Thus, in terms of share of the overall state industry, employment and wages actually became more concentrated in King and Pierce after enactment of the incentive.

It is likely that the change in share of overall state industry in the wholesaling and independent public warehousing industries represented less a shift of business from other counties to King and Pierce, but rather more rapid growth in King and Pierce than growth elsewhere.

3. Program Performance, in Terms of Stimulating Interstate Trade

Two measures were used to evaluate whether the incentive program may have had an effect on interstate trade; results were mixed. The Washington State share of national employment in the independent public warehousing sector declined from 2.9 percent to 2.3 percent (see fig. 9) between 1996 and 2000, while the state per-employee wage for the industry improved from 91 percent to 96 percent of the national average over the same period (see fig. 14). However, as noted previously, the per-employee wages for the independent public warehousing businesses in the incentive program grew much less quickly than the state industry as a whole (fig. 12).

With respect to the wholesaling sector, there was virtually no change in the share of national employment, but the state per-employee wage declined from 91 to 89 percent over the period (see figs. 10 and 15).

Because the shares of the statewide industries in the wholesaling and public warehousing sectors represented by the incentive applicants are small (see fig. 1), and with the lack of significant improvement relative to the national economy as noted above, it is not possible to conclude from the discussion above that the incentive program had a positive effect on the stimulation of interstate trade through calendar year 2000.

A third measure, comparison of recent growth in warehousing space, also provides equivocal results. For the members of the tax incentive group other than real estate developers, the growth in space after enactment of the incentive appears to have exceeded the national growth. (Due to the nature of the real estate market, analysis of developers' growth would not have provided meaningful data.) However, faster growth in the metropolitan Seattle and Portland markets, based on a broader category of warehousing than under the incentive program, indicates that the tax incentive program may not have boosted local warehouse space growth rates above that which would have otherwise occurred.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# Attachment A

## Warehouse and Grain Elevator Operations Tax Exemption
## Chapter 450, laws of 1997 (E2SSB 5074)

CERTIFICATION OF ENROLLMENT

**ENGROSSED SECOND SUBSTITUTE SENATE BILL 5074**

55th Legislature
1997 Regular Session

Passed by the Senate April 17, 1997
YEAS 45 NAYS 0

**President of the Senate**

Passed by the House April 26, 1997
YEAS 84 NAYS 14

**Speaker of the**
**House of Representatives**

Approved

**Governor of the State of Washington**

CERTIFICATE

I, Mike O Connell, Secretary of the Senate of the State of Washington, do hereby certify that the attached is **ENGROSSED SECOND SUBSTITUTE SENATE BILL 5074** as passed by the Senate and the House of Representatives on the dates hereon set forth.

**Secretary**

FILED

**Secretary of State**
**State of Washington**

# ENGROSSED SECOND SUBSTITUTE SENATE BILL 5074

Passed Legislature - 1997 Regular Session

**State of Washington 55th Legislature 1997 Regular Session**

**By** Senate Committee on Ways & Means (originally sponsored by Senators Sellar and Snyder)

Read first time 04/07/97.

AN ACT Relating to increasing interstate trade through tax incentives for warehouse and grain elevator operations; amending RCW 81.104.170; adding a new section to chapter 82.08 RCW; adding a new section to chapter 82.12 RCW; adding a new section to chapter 82.14 RCW; creating new sections; and declaring an emergency.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** The legislature finds that the state's overall economic health and prosperity is bolstered through tax incentives targeted to specific industries. The warehouse and distribution industry is critical to other businesses. The transportation sector, the retail sector, the ports, and the wholesalers all rely on the warehouse and distribution industry. It is the intent of the legislature to stimulate interstate trade by providing tax incentives to those persons in the warehouse and distribution industry engaged in highly competitive trade.

NEW SECTION. **Sec. 2.** A new section is added to chapter 82.08 RCW to read as follows:

(1) Wholesalers or third-party warehousers who own or operate warehouses or grain elevators and retailers who own or operate distribution centers, and who have paid the tax levied by RCW 82.08.020 on:

(a) Material-handling and racking equipment, and labor and services rendered in respect to installing, repairing, cleaning, altering, or improving the equipment; or

(b) Construction of a warehouse or grain elevator, including materials, and including service and labor costs,

are eligible for an exemption in the form of a remittance. The amount of the remittance is computed under subsection (3) of this section and is based on the state share of sales tax.

(2) For purposes of this section and section 3 of this act:

(a) "Agricultural products" has the meaning given in RCW 82.04.213;

(b) "Construction" means the actual construction of a warehouse or grain elevator that did not exist before the construction began. "Construction" includes expansion if the expansion adds at least two hundred thousand square feet of additional space to an existing warehouse or additional storage capacity of at least one million bushels to an existing grain elevator. "Construction" does not include renovation, remodeling, or repair;

(c) "Department" means the department of revenue;

(d) "Distribution center" means a warehouse that is used exclusively by a retailer solely for the storage and distribution of finished goods to retail outlets of the retailer. "Distribution center" does not include a warehouse at which retail sales occur;

(e) "Finished goods" means tangible personal property intended for sale by a retailer or wholesaler. "Finished goods" does not include agricultural products stored by wholesalers, third-party warehouses, or retailers if the storage takes place on the land of the person who produced the agricultural product. "Finished goods" does not include logs, minerals, petroleum, gas, or other extracted products stored as raw materials or in bulk;

(f) "Grain elevator" means a structure used for storage and handling of grain in bulk;

(g) "Material-handling equipment and racking equipment" means equipment in a warehouse or grain elevator that is primarily used to handle, store, organize, convey, package, or repackage finished goods. The term includes tangible personal property with a useful life of one year or more that becomes an ingredient or component of the equipment, including repair and replacement parts. The term does not include equipment in offices, lunchrooms, restrooms, and other like space, within a warehouse or grain elevator, or equipment used for nonwarehousing purposes. "Material-handling equipment" includes but is not limited to: Conveyers, carousels, lifts, positioners, pick-up-and-place units, cranes, hoists, mechanical arms, and robots; mechanized systems, including containers that are an integral part of the system, whose purpose is to lift or move tangible personal property; and automated handling, storage, and retrieval systems, including computers that control them, whose purpose is to lift or move tangible personal property; and forklifts and other off-the-road vehicles that are used to lift or move tangible personal property and that cannot be operated legally on roads and streets. "Racking equipment" includes, but is not limited to, conveying systems, chutes, shelves, racks, bins, drawers, pallets, and other containers and storage devices that form a necessary part of the storage system;

(h) "Person" has the meaning given in RCW 82.04.030;

(i) "Retailer" means a person who makes "sales at retail" as defined in chapter 82.04 RCW of tangible personal property;

(j) "Square footage" means the product of the two horizontal dimensions of each floor of a specific warehouse. The entire footprint of the warehouse shall be measured in calculating the square footage, including space that juts out from the building profile such as loading docks. "Square footage" does not mean the aggregate of the square footage of more than one warehouse at a location or the aggregate of the square footage of warehouses at more than one location;

(k) "Third-party warehouser" means a person taxable under RCW 82.04.280(4);

(l) "Warehouse" means an enclosed building or structure in which finished goods are stored. A warehouse building or structure may have more than one storage room and more than one floor. Office space, lunchrooms, restrooms, and other space within the warehouse and necessary for the operation of the warehouse are considered part of the warehouse as are loading docks and other such space attached to the building and used for handling of finished goods. Landscaping and parking lots are not considered part of the warehouse. A storage yard is not a warehouse, nor is a building in which manufacturing takes place; and

(m) "Wholesaler" means a person who makes "sales at wholesale" as defined in chapter 82.04 RCW of tangible personal property, but "wholesaler" does not include a person who makes sales exempt under 82.04.330.

(3)(a) A person claiming an exemption from state tax in the form of a remittance under this section must pay the tax imposed by RCW 82.08.020. The buyer may then apply to the department for remittance of all or part of the tax paid under RCW 82.08.020. For grain elevators with bushel capacity of one million but less than two million, the remittance is equal to fifty percent of the amount of tax paid. For warehouses with square footage of two hundred thousand or more and for grain elevators with bushel capacity of two million or more, the remittance is equal to one hundred percent of the amount of tax paid for qualifying construction, materials, service, and labor, and fifty percent of the amount of tax paid for qualifying material-handling equipment and racking equipment, and labor and services rendered in respect to installing, repairing, cleaning, altering, or improving the equipment.

(b) The department shall determine eligibility under this section based on information provided by the buyer and through audit and other administrative records. The buyer shall on a quarterly basis submit an information sheet, in a form and manner as required by the department by rule, specifying the amount of exempted tax claimed and the qualifying purchases or acquisitions for which the exemption is claimed. The buyer shall retain, in adequate detail to enable the department to determine whether the equipment or construction meets the criteria under this section: Invoices; proof of tax paid; documents describing the material-handling equipment and racking equipment; location and size of warehouses and grain elevators; and construction invoices and documents.

(c) The department shall on a quarterly basis remit exempted amounts to qualifying persons who submitted applications during the previous quarter.

(4) Warehouses, grain elevators, and material-handling equipment and racking equipment for which an exemption, credit, or deferral has been or is being received under chapter 82.60, 82.61, 82.62, or 82.63 RCW or RCW 82.08.02565 or 82.12.02565 are not eligible for any remittance under this section. Warehouses and grain elevators upon

which construction was initiated before the effective date of this act are not eligible for a remittance under this section.

(5) The lessor or owner of a warehouse or grain elevator is not eligible for a remittance under this section unless the underlying ownership of the warehouse or grain elevator and the material-handling equipment and racking equipment vests exclusively in the same person, or unless the lessor by written contract agrees to pass the economic benefit of the remittance to the lessee in the form of reduced rent payments.

NEW SECTION. **Sec. 3.** A new section is added to chapter 82.12 RCW to read as follows:

(1) Wholesalers or third-party warehousers who own or operate warehouses or grain elevators, and retailers who own or operate distribution centers, and who have paid the tax levied under RCW 82.12.020 on:

(a) Material-handling equipment and racking equipment; or

(b) Materials incorporated in the construction of a warehouse or grain elevator.

(2)(a) A person claiming an exemption from state tax in the form of a remittance under this section must pay the tax imposed by RCW 82.12.020 to the department. The person may then apply to the department for remittance of all or part of the tax paid under RCW 82.12.020. For grain elevators with bushel capacity of one million but less than two million, the remittance is equal to fifty percent of the amount of tax paid. For warehouses with square footage of two hundred thousand and for grain elevators with bushel capacity of two million or more, the remittance is equal to one hundred percent of the amount of tax paid for qualifying construction materials, and fifty percent of the amount of tax paid for qualifying material-handling equipment and racking equipment.

(b) The department shall determine eligibility under this section based on information provided by the buyer and through audit and other administrative records. The buyer shall on a quarterly basis submit an information sheet, in a form and manner as required by the department by rule, specifying the amount of exempted tax claimed and the qualifying purchases or acquisitions for which the exemption is claimed. The buyer shall retain, in adequate detail to enable the department to determine whether the equipment or construction meets the criteria under this section: Invoices; proof of tax paid; documents describing the material-handling equipment and racking equipment; location and size of warehouses, if applicable; and construction invoices and documents.

(c) The department shall on a quarterly basis remit or credit exempted amounts to qualifying persons who submitted applications during the previous quarter.

(3) Warehouse, grain elevators, and material-handling equipment and racking equipment for which an exemption, credit, or deferral has been or is being received under chapter 82.60, 82.61, 82.62, or 82.63 RCW or RCW 82.08.02565 or 82.12.02565 are not eligible for any remittance under this section. Materials incorporated in warehouses and grain elevators upon which construction was initiated prior to the effective date of this act are not eligible for a remittance under this section.

(4) The lessor or owner of the warehouse or grain elevator is not eligible for a remittance or credit under this section unless the underlying ownership of the warehouse or grain elevator and material-handling equipment and racking equipment vests exclusively in the same person, or unless the lessor by written contract agrees to pass the economic benefit of the exemption to the lessee in the form of reduced rent payments.

(5) The definitions in section 2 of this act apply to this section.

NEW SECTION. **Sec. 4.** A new section is added to chapter 82.14 RCW to read as follows:

The exemptions in sections 2 and 3 of this act are for the state portion of the sales and use tax and do not extend to the tax imposed in this chapter.

**Sec. 5.** RCW 81.104.170 and 1992 c 101 s 28 are each amended to read as follows:

Cities that operate transit systems, county transportation authorities, metropolitan municipal corporations, public transportation benefit areas, and regional transit authorities may submit an authorizing proposition to the voters and if approved by a majority of persons voting, fix and impose a sales and use tax in accordance with the terms of this chapter, solely for the purpose of providing high capacity transportation service.

The tax authorized pursuant to this section shall be in addition to the tax authorized by RCW 82.14.030 and shall be collected from those persons who are taxable by the state pursuant to chapters 82.08 and 82.12 RCW upon the occurrence of any taxable event within the taxing district. The maximum rate of such tax shall be approved by the voters and shall not exceed one percent of the selling price (in the case of a sales tax) or value of the article used (in the case of a use tax). The maximum rate of such tax that may be imposed shall not exceed nine-tenths of one percent in any county that imposes a tax under RCW 82.14.340, or within a regional transit authority if any county within the authority imposes a tax under RCW 82.14.340. The exemptions in sections 2 and 3 of this act are for the state portion of the sales and use tax and do not extend to the tax authorized in this section.

NEW SECTION. **Sec. 6.** The legislative fiscal committees shall report to the legislature by December 1, 2001, on the economic impacts of this act. This report shall analyze employment and other relevant economic data pertaining to the tax exemptions authorized under this act and shall measure the effect on the creation or retention of family-wage jobs and diversification of the state's economy. The report must include the committee's findings on the tax incentive program's performance in achieving its goals and recommendations on ways to improve its effectiveness. Analytic techniques may include, but not be limited to, comparisons of Washington to other states that did not enact business tax changes, comparisons across Washington counties based on usage of the tax exemptions, and comparisons across similar firms based on their use of the tax exemptions. In performing the analysis, the legislative fiscal committees shall consult with business and labor interests. The department of revenue, the employment security department, and other agencies shall provide to the legislative fiscal committees such data as the legislative fiscal committees may request in performing the analysis required under this section.

NEW SECTION. **Sec. 7.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect immediately.

**--- END ---**

# Attachment B

## Staff Survey of Incentive Applicants

Questions for Warehouse Remittance Applicants

- Under the state law that was passed in 1997, the Legislative staff is required to evaluate the exemption in terms of its effect on employment and on the state economy.
- So we are calling to obtain information about growth in your business since the completion of the expansion or purchase of equipment.
- Any information we collect will not be divulged on an individual taxpayer basis. We will report based on categories affected, such as wholesalers in general.

1) If the remittance application was part of an expansion or new construction, is your project complete and operational?

2) Who operates (is the tenant of) the warehouse/grain elevator?

3) If you're the operator or tenant:
   a) What is your current employment at that location?
      i) Since the point you completed the project or put the equipment into operation, what has been the increase/decrease in employment at that location?
   b) What is your current employment statewide?
      i) Since the point you completed the project or put the equipment into operation, what has been the increase/decrease in employment statewide?
   c) If the employment has increased at the location, did the increase represent an expansion of personnel or the transfer of personnel from a different location?

4) If you own the warehouse or grain elevator:
   a) What is your current total amount of warehouse space or grain elevator capacity statewide (in terms of square feet or bushels)?
      i) What was the amount warehouse space (in square feet) or grain elevator capacity (in bushels) statewide prior to project completion/equipment installation and operation?

*Please return by e-mail (Matteson_ma@leg.wa.gov) or fax (360-786-7018) by Dec. 28, 2001.*